

Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

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INDIVIDUAL TRUST REVIEW AND SELECTION ISSUE								
Trust	Port. Mil.\$	Non- Earn.%	Lever. Ratio#	Ann. Div.*	Recent Price	Price/ Bk.Val.	Ann. Yld.*	Page
ConnGen Mtg...	\$415.5	9.5%a	2.8	\$1.60	\$15.75	-19%	10.1%	3
Equit.Lf.Mtg..	376.5	9.6	1.8	2.00	21.75	- 8	9.2	4
MassMut. Mtg..	205.8	16.9a	1.3	1.12	11.25	-42	9.9	5
MONY Mtg.....	234.3	12.7a	1.7	0.92	8.75	-13	10.5	6
NW Mut.Lf.Mtg.	257.8	16.9a	1.9	1.00	10.13	-48	9.8	8

Ratio of all debt to shareholder equity. * Latest quarter annualized.
a-Percentage includes acquired property with positive cash flow as follows:
ConnGen, 3.2%; MassMutual, 3.2%; MONY Mtg., 3.5%; NW Mut.Lf., 4.1%.

THE BIG FIVE INSURANCE TRUSTS: OPPORTUNITIES TO PLAY THE REAL ESTATE TURNAROUND

The real estate recovery has now progressed sufficiently that serious investors can take a long look at using shares and convertibles of the Big Five insurance company-sponsored trusts in their portfolios. We have been generally ranking the shares No. 2 (above average appeal) for over a year now and so many subscribers may have already established base positions in their favorites. These trusts are very long-term holdings whose share prices can be expected to vary with interest rates and the real estate economy without dramatic short-term capital gains. For instance, MONY Mortgage has been the biggest gainer recently, up 38½% since our last complete review in April-May 1975. In that intervening year, Equitable Life Mtg. & Realty has moved up 26%, Connecticut General Mtg. & Realty 15%, Northwestern Mutual Life Mtg. & Realty 9½%, and MassMutual Mtg. & Realty 7½%. The Dow-Jones Industrial has moved up about 21½% in that time span.

The question now is whether these shares have exhausted their potential, or whether the prospect of rising short-term interest rates could peril expected earnings gains. By and large we believe that more good news lies ahead for investors in these shares, and that these projected gains spring more from dynamics of the real estate cycle than from broader economic conditions. New supply of most real estate types has been choked off by the enervating real estate recession and now underlying basic demand for space is starting to eat into oversupply in many areas, aiding these large diversified portfolios. Moreover these trusts are generally conservatively financed, generally with good matching of short-term investments and funds, so that interest swings should have minimal impact. But there are significant differences between the five and our reviews should be studied carefully before making selections.

The five trusts are unique in many ways. They have continued paying dividends through the recession, albeit at reduced levels. They have been able to control problem loans well, drawing upon the experience of staff and correspondent networks

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that have been dealing with real estate cycles for decades and even a century. Their shares are valued in the stock market at about \$390 million, about one-fourth the industry total, making them virtually the entire institutional market for REIT shares. Their portfolios contain much higher percentages of shopping center and retail holdings than the industry, letting them share in retailing's current boom. All were founded in 1970-71 when long-term mortgages with equity kickers (i.e., percentages of gross rents or sales as additional interest) were very common and sought after. About half their current \$1.5 billion holdings are long-term permanent mortgages written at that time; now conditions have changed and not one of the five today is committing to make long-term mortgages. Instead they are concentrating upon short-term construction and development loans, written with benefit of hindsight from others' mistakes in recent years, or building their equity holdings as inflation hedges.

Choosing between the five is very much a matter of matching your investment objectives with those of one or more of the individual trusts. In so doing there are three major common threads running through all five that should be considered:

Institutional support: The life insurance company sponsors have supported their trusts in ways not often visible. Each trust has benefitted from long-established field organizations and correspondent networks which give the trust a continuing presence in local real estate markets. This has also established workout credibility. The adviser-sponsor participates in making mortgage loans and investments jointly with each trust in major amounts, thus assuring investors that the sponsor has substantial funds of its own at risk. And some sponsors, notably Northwestern Mutual and Massachusetts Mutual, have aided their trusts by taking over troubled loans with long workout times and thus freeing trust shareholders of their carrying costs.

Thrust of new investments: Only two trusts have intensive new investment programs: Connecticut General Mtg. is seeking new equity investments to add to its large holdings, with all the risks and rewards that entails, and Equitable Life Mtg. is committing to make construction loans on several major new projects. The remaining three are less aggressive in seeking new commitments and most are in the short-term construction loan area; Northwestern Mutual Life Mtg. has the biggest backlog. This indicates that Equitable's portfolio may grow some over the next few quarters, while ConnGen may let some short-term investments run off, and the other portfolios may be static to down. Their current portfolios already reveal differing emphases as shown in this table:

Trust	-----Mil. \$-----						-----Percentage-----			
	LT Mtg.	ST Mtg.	Equity	Fore.	Tot.	Comm.	LT Mtg.	ST Mtg.	Eq.	Fore.
ConnGen Mtg.	\$177	\$143	\$66	\$29	\$416	\$17	43%	35%	16%	7%
Equit.Lf.Mtg.	158	198	11	9	377	197	42	53	3	2
MassMut. Mtg.	168	21	5	13	206	4	81	10	2	6
MONY Mtg.	105	91	31	8	234	13	45	39	13	4
NW Mut.Lf.Mtg.	144	77	16	21	258	48	56	30	7	8
TOTALS	\$752M	\$530M	\$129M	\$80M	\$1490M	277M	51%	36%	9%	5%

Capital raising ability: All five have stretched their permanent capital to its limits through investment in long-term mortgages and equities, plus involuntary investment in acquired properties. All would like to raise long-term capital to replace short-term borrowings that exceed short-term investments for all five. Public convertible or share offerings are possibly doable for the three trusts selling closest to book value, in order Equitable Life, MONY Mtg. and ConnGen (see table on page 1). MassMutual Mtg. and Northwestern Mutual Life Mtg. sell at much steeper discounts from book and thus shares are more speculations upon recovery toward book value than on benefits from raising new capital on favorable terms. Their current capitalizations show a composite 1.95 ratio of all debt to shareholder equity, and

varying components of each class of debt:

Trust	-----Mil. \$-----					-----Percentage-----			
	ST debt	LT debt	Converts	Equity	Tot.	ST debt	LT debt	Cvts.	Equity
ConnGen Mtg.	\$ 142	\$96	\$78	\$111	\$ 427	33%	22%	18%	26%
Equit.Lf.Mtg.	237	--	7	132	376	63	--	2	35
MassMut. Mtg.	48	--	72	91	210	23	--	34	43
MONY Mtg.	93	45	8	88	234	40	19	4	38
NW Mut.Lf.Mtg.	108	64	3	91	266	41	24	1	34
TOTALS	\$628M	\$205M	\$167M	\$513M	\$1513M	42%	14%	11%	34%

CONNECTICUT GENERAL MTG. & REALTY INVESTMENTS (15-3/4--NYSE-CGM) March FY

Portfolio: Largest life insurance sponsored trust, CGM is also moving into equities the most rapidly. Equity holdings now stand at 16% of total investments and could be in the 20-25% range by the end of fiscal 1977. While equities are booked at only \$66.4 million on the balance sheet, the trust actually has interests in about \$274 million via the equity route. This occurs because of the inherent leverage in the trust's position in each of three ownership categories: First, direct ownership of property with \$49.9 million gross cost is subject to \$21 million secured first mortgages; Second, \$8.5 million investment in eight partnerships gives the trust an interest in \$112 million of property; and Third, \$12.7 million investment in land purchase/leasebacks is subject to \$99.4 million prior mortgage debt, including \$43.4 million provided by third-party lenders.

These equity holdings provided about \$4.9 million in distributable funds (essentially net cash flow) in the March 1976 fiscal year, or about \$0.86/share -- more than half total distributable funds of \$1.67 $\frac{1}{2}$ /sh. Overall the \$50.2 million net equity investment produced a 9.55% return, ranging from 7.6% for equities to 12.8% in leasebacks.

Remainder of the portfolio is 42 $\frac{1}{2}$ % in long-term mortgages, 35% in short-term construction, development and standing loans, and 7% in acquired property. About \$108 million of the \$133 million short-term holdings are due to be repaid this year. About 6.2% of holdings are classed as not earning or producing positive cash flow. By property type, investments are 41% retail and shopping center, 28 $\frac{1}{2}$ % residential (apartment, condo, and hotel/motel), 10% industrial, 10% office, and 7 $\frac{1}{2}$ % land development. This latter category has provided the most trouble and about one-third of \$30.6 million has been acquired in foreclosure or is nonearning.

Nonearning investments include \$10.1 million in seven nonaccruing short-term mortgage loans and \$15.9 million in eight acquired properties not providing positive cash flow. These acquired properties include \$3.6 million in 1,140 unimproved acres in Minnesota; \$3.2 million in a 272-unit Florida resort hotel; \$2.9 million in 41 remaining unsold condos in a 98-unit, 17-story South Carolina condo on the Atlantic Ocean; and \$5.2 million in four land parcels in California, Texas and South Carolina. Largest nonaccruing mortgage loan is \$2.9 million in 250,000 sf of partially leased light industrial space in Pennsylvania.

Sponsor: Connecticut General Insurance Corp., life insurance holding company, through a subsidiary. Connecticut General Life Insurance, another subsidiary, has \$121 million participations in \$123.5 million of trust investments. Financing: Total funds of \$427 million are 74% debt and 26% shareholder equity; the debt/equity ratio works out to 2.8-to-1. Short-term borrowings are predominantly commercial paper, \$131 million, plus \$11 million bank debt. Long-term debt included \$75 million in term bank borrowings due January 1980 with effective 8.1% interest last year; \$20.9 million mortgages; and \$77.5 million in two issues of convertibles. Short-term borrowings cost an average 6.7% in 1976, providing a 2.2% spread on borrowings; long-term borrowings cost an average 7.2% and also contributed a 2.2% spread, before advisory fees and overhead. Forward commitments at \$17 million are nominal and biggest financing question is whether management will use proceeds from \$108 million scheduled maturities of short-term investments to repay debt and thus shrink assets,

or reinvest in the short-term market. Management has no fixed policy right now, saying it will make limited short-term investments where relative safety seems assured.

Results & outlook: March quarter earnings of \$0.37/sh. and distributable funds of \$0.45/sh. were both up from prior quarters. For fiscal 1976, net cash flow of \$1.67½/sh. covered distributions of \$1.60. We calculate that year-to-year gains in the equity portfolio--i.e., overage income, percentage rents and gains from higher occupancies--contributed about \$0.07/sh. to cash flow last year and could add about the same to FY 1977. This could be offset by possibility that earnings would be impacted by about \$0.13/sh. if management decides to let all the short-term portfolio run off; such a step would improve earnings quality. All in all, CGM has established an excellent base for expanding the equity holdings and concomitant earnings and dividend growth over the longer term. Dividends were 20% return of capital in 1975. The most active convertibles, the 6s of 1996, sell at 65 to yield 9.2% but carry a heavy premium over the 32½ conversion; they are best for investors seeking stable income. The shares are being raised to No. 1 ranking as long-term buys for greater growth and inflation protection via the equity holdings. (KDC)

EQUITABLE LIFE MORTGAGE AND REALTY INVESTORS (21 3/4--NYSE-EQ) FY Oct. 31

Portfolio: Holdings climbed 6% over the year to \$377 million in April. The trust's goal is to grow another 6% from there to about \$400 million over the next 9-15 months. Makeup by type was 42% long term loans, 30% construction, 19% land and land development, and 2½% each purchased property and foreclosed property. Orientation is most toward shopping centers. In October 1975, mix was 29% shopping centers, 20% tracts and unimproved land (including recreational use), 10% offices, 10% apartments, 8% condominiums, 6% hotels, and 4% each department stores, hospitals and industrial. Over 90% of the portfolio was still earning, enabling high level profitability to continue and support the trust's ability to obtain low cost borrowing. On April 30, when the prime interest rate was 6 3/4%, 34% of the portfolio floated with prime and 10% floated above a minimum.

Holdings will change by type, much along the lines of the past six months when virtually all growth took place in short-term additions. Equitable went into the current fiscal year with \$145 million unfunded commitments, 83% short term, and wrote new commitments at a \$25 million-a-month pace in the first five months this fiscal year, again mostly short term. All the \$126 million new approvals are construction loans. While essential features are unchanged, all have the life company's take-outs for the permanent loan, the size and mix are different. Only 13 loans make up the \$126 million, an average of \$9.7 million per investment. Also, four hotels account for 59%, \$74 million, with the rest three shopping centers for \$23 million, a hospital for \$12 million and a Washington, D.C. condo for \$15 million. Portfolio is widely diversified geographically in 33 states; the biggest states with around 10% each are: Fla., Ga., Va., Pa. and O.

The problem category remains modest at 9½% of holdings consisting of \$27 million non-accruing loans and \$9 million foreclosed properties. The biggest problem holdings as of Oct. 1975 were long-term loans of \$3 million on an office building and \$800,000 on apartments, construction loans of \$7 million on townhouse condos and \$2.3 million on apartments, land loans of \$14 million over half for townhouse condos and foreclosed property including \$2 million on a Richmond, Va. office, \$600,000 on a single family development in St. Louis, Mo., and \$900,000 on industrial in Woburn, Mass. By yearend, two or three properties should be out and in two years the trust believes it will be able to reduce its problem category to a negligible amount. Moreover, the possible \$5-600,000 loss is well covered by the \$1.25 million loss reserve.

Financing: Fundings are 38% capital and 62% non-convertible debt. Capital is 95% equity and 5% convertible debentures, the 6-3/4s of 1990 conv. @ 26½. Non-convertible debt of \$237 million is all short term: 59% commercial paper, 27% term bank notes, 10% master notes, 3% demand bank notes. The commercial paper portion of short-term debt was shifted over the last 18 months from 25% to 59%. Commercial

paper constitutes the cheapest credit form in normal monetary conditions. The trust is able to reach this market economically with continuing Moody's prime rating and backing of \$196 million lines of credit. The lines also back the master notes. Short-term credit capability is the cornerstone of Equitable's portfolio strategy and recent profit progress. Access to the short-term market is one reason for seeking commitments of short-term nature and the drop in interest rates since late 1975 helped the trust's gross spread to widen between short-term borrowing costs and the rate earned on investments supported by these borrowings. This spread rose to 2.24% on April 30 from 1.59% a year before. Increased portfolio levels will be funded essentially by commercial paper but also by master notes. Sponsor: Equitable Life Assurance Society, third largest life insurance company. Sponsor has long standing real estate network and participates with trust for minimum 10% in investments. At yearend, the life company had participations equal to 31% of trust's funding.

Results & outlook: The regular quarterly dividend of \$0.50 was maintained with the July declaration. This brought dividends attributable to fiscal 1976 earnings to \$1.50 vs. \$1.45 in last year's nine months. Earnings for the April quarter were reported at \$0.52 after \$0.08 reduction caused by earnings reversal as some loans were reclassified non-earning. Thus operating earnings for the April quarter may be considered close to \$0.60. April quarter earnings were helped by low interest rates. The prime rate was at its low for the current cycle, 6 3/4%. Since only about 44% of the portfolio floated while 62% of fundings did so, the interest factor fell more than income. (Now about 49% of the portfolio floats but commercial paper is up to \$152 million so the ratio is little changed.) With the prime rate higher this quarter, the gross spread will be down but the trust will have a slightly larger portfolio. The most significant change though will be absence of loan reclassification that caused most of the \$0.08 reduction in April. Portfolio should grow to about \$400 million by fiscal yearend Oct. from the present \$380 million. It should stabilize there, give or take \$20 million, until additional capital is obtained. Given continued access to the low cost commercial paper market, further modest profit growth should be achieved with portfolio expansion. Future quarters will have occasional benefit from re-reversal of earnings. The shares and converts are attractive income holdings with modest appreciation also likely. (BS)

MASSMUTUAL MORTGAGE & REALTY INVESTORS (11 1/4--NYSE-MML) Oct. FY

Portfolio: MML holds the highest proportion of long-term mortgages, 81%, in its portfolio and thus has lower portfolio turnover because funds from paybacks are nominal, about \$2 1/2 million annually. Most short-term construction and land development loans are now nonearning or have been foreclosed, and the \$20 million in short-term loans likely will run off gradually over the next year or two. Holdings of \$205.8 million are down 25% from a peak \$276 million touched two years ago; virtually all the shrinkage has been in construction and other short-term loans. No new commitments are being made and only \$3.5 million commitments remain to be funded.

Holdings are concentrated in shopping centers and retail, 36%, and apartments, 27%. About 13% of mortgages are located in each of New York and Texas. At April 30 the trust was not recognizing income on \$22.1 million of mortgage loans and had acquired \$12.7 million property, about half of which is earning some cash income. Total nonearning and acquired properties are 16.9% of holdings, including 3.2% of properties providing positive cash flow. Total problem loans have been trending downward since peaking at 19% of holdings last October, the reduction amounting to \$5.2 million net. This reduction came by switching \$4.8 million in two apartment projects to the long-term investment account, and by agreeing to exchange a \$6 million interest in a second mortgage on New York City's Chrysler Building for \$6 million in trust convertibles to be bought by the life insurance company adviser. In the same time five loans valued at \$6.5 million were added to the problem list. Major nonearning mortgage loans include \$5.0 million participation in the first mortgage loan on the New York City office building vacated by W.T. Grant Co., where occupancy

is now 58% and further forbearance is being considered; \$3.2 million in a 181-unit apartment in Hinds County, Miss., with 50% occupancy and since acquired; \$3.6 million in an 84-unit condo in Key Largo, Fla.; \$2.7 million in an 80-unit condo in Miami, where foreclosure is underway; and \$1.9 million in a 59-unit single-family development in Miami, where 14 units have been sold. Major nonearning acquired properties are \$5.3 million in a combination land loan on 198 acres in San Antonio and 54 acres in Houston; and \$905,000 in 10 acres in Dallas. Acquired properties earning positive cash flow are four apartments with 590 units located in Miami, Atlanta, Ithaca, N.Y. and Kettering, O.; and 59,000 sf office complex in Dallas, now 45% leased.

The shopping center/retail section of the long-term mortgage portfolio combines first mortgages on four major regional centers with 2.4 million sf and on 23 discount and neighborhood centers with 2.6 million sf, plus small amounts of other retail property. Overage income is provided mainly by the large regional centers and is said to be running about even with last year, not significant to total earnings. Long-term mortgages earned at a 8.87% annual rate in the latest six months; management's internal calculations indicate a 9.1% yield.

Sponsor: Massachusetts Mutual Life Insurance Co., which receives 17½% of net income before the fee for advisory services. Adviser participation amounted to 36% of investments at end of the 1975 fiscal year. Financing: Total capital of \$210 million is 43% shareholder equity and 57% borrowed funds, for a 1.3 leverage ratio that is the lowest among the insurance company trusts. Borrowings of \$119 million are \$71½ million in three issues of convertibles and \$47½ million in bank borrowings; total short-term debt is only 23% of total capital, again the lowest percentage among the five trusts. Liquidity is no problem, with only \$3.5 million unfunded commitments and \$70 million bank lines available. Short-term debt has fallen in recent quarters and should fall a bit more as the short-term portfolio is liquidated. MML's banks will permit new short-term commitments but none have been made so far.

Results & outlook: April quarter earnings of \$0.28/sh. reflected matching of a \$0.39/sh. loss on the Chrysler Building loan swapped to its adviser and a \$0.38/sh. gain from extinguishment of debt taken in the exchange. Earnings before this swap were up from the \$0.27/sh. of the prior quarter, due entirely to a \$0.01/sh. smaller provision for other losses. The portfolio appears to have stabilized and acquired and nonearning properties are showing very modest progress toward longer-term workout. Few new troubles are expected, which should allow improvements in the problem category to fall to the bottom line. Thus the prospect is for gradual earnings and dividend improvement. MML's convertibles are attractive for safe yield, and the 6¼s of 1991 have the largest float, \$45.8 million; at 69½ they yield 9.0% but the premium over a 33½ conversion price is huge. The shares provide a 10.4% yield currently and provide a play upon possibility that the subpar 5.8% return on book value can be improved substantially, thus letting shares sell closer to the \$19.38/sh. book value. (KDC)

NORTHWESTERN MUTUAL LIFE MTG. & REALTY INVESTORS (10-1/8--NYSE-NML) March FY
Portfolio: Holdings rose 2% to \$257.8 million in the March 1976 fiscal year and NML is making a very few selective new commitments for short-term construction loans. The trust is being very cautious in this troublesome area, insisting that developers have arranged permanent financing to repay their construction loans. The trust issued \$8.1 million new short-term construction commitments last year and expects to commit enough in this area to keep short-term loans at about 25%-35% of total holdings.

Such short-term loans ended the year at \$76.7 million, down from a peak of \$100 million and now about 30% of total holdings. About \$24 million of short-term commitments remain to be funded. Other major portfolio components are long-term

mortgages, 56% of the total, property acquired in foreclosure, 8%, and equity investments, 6%. Holdings are heavily oriented toward standard income property types, with 25% in office buildings, 22% shopping centers, 14% apartment, 11% land development and 10% condominium. By state, 15% of loans and commitments are in Florida, 14½% in California, 12% Illinois, 9% each in Arizona and Texas. The long-term mortgages performed the best in the real estate recession and all loans were accruing interest at year-end; only soft spot was a \$3.9 million loan on a Phoenix shopping center and office complex acquired in lieu of foreclosure during the year. The funded portfolio carries a 9.01% contract rate while the \$20½ million of unfunded commitments will earn 8.83%; about 42% of funded loans carry contingent interest features and the trust received \$99,000 in contingent interest last year, up 10%, and adding 0.07% to interest income. NML's \$62.7 million of long-term borrowed capital cost a weighted average 8.64% during 1976, so the long-term mortgage portfolio was a positive earner by only 0.44% before advisory fee and overhead.

Equity holdings of \$16 million are to be expanded gradually from the current 6% level; \$3.3 million commitments are out and NML recently agreed to buy the 22-story Arizona Bank Plaza in downtown Tucson, Ariz. at a price contingent upon the developer meeting certain completion and occupancy minimums; the trust is lending \$10 million to construct the building. Property holdings returned 10.4% gross cash-on-cash return last year and 9.6% net cash, both down because one office building had vacancies; this space has now been rented.

Foreclosed property and nonearning loans were 16.9% of holdings at year-end, or \$43.6 million (\$23 million nonearning, \$20.6 million acquired property). The nonearning loan account of six loans includes \$6.9 million on a Ft. Lauderdale, Fla. condo, being acquired and to be operated as an apartment-hotel until the condo market improves; \$6.6 million in a Tucson, Ariz. shopping center now 34% leased and operated by the trust as mortgagee in possession; \$4.1 million as 50% participation in a loan on 684 acres in Greensboro, N.C. being developed as a golf and recreational community; \$2.5 million in a Pompano Beach, Fla. condo with steady sales; and \$2.3 million in a 76-unit condo in Atlanta, recently acquired. About half of foreclosures (seven properties) are producing positive cash income and half (five properties) are not. Largest income producing property is \$3.9 million in the Olive Square shopping-office complex in Phoenix, where leasing is improving from a current 53%. Nonearning properties include \$5.4 million in 200 acres in North Lauderdale, Fla.; \$2.3 million in townhouse condos in Austin, Tex.; and \$1.3 million in land in Rancho Palos Verdes, Cal., recently downzoned and being sold for a \$350,000 loss.

Sponsor: Northwestern Mutual Life Insurance Co., one of the nation's largest life companies. The adviser had invested \$99.7 million in holdings with trust investment of \$75.7 million at year-end. During the year two loans with \$3.6 million principal and \$575,000 accrued interest were repaid from loans by the adviser or property sold to the adviser. Financing: NML's total funds of \$266 million are 66% borrowed and 34% shareholder equity, for a debt/equity ratio of 1.9-to-1. Short-term debt amounts to \$108 million and is \$47.7 million commercial paper, \$49½ million bank demand notes, and \$10.8 million other demand notes. Principal long-term debt is \$50 million of unsecured notes at maximum 8¼% interest and due 1982, and \$10 million variable rate (effective rate 11.29% last year) senior notes due 1980. The short-term mortgage portfolio provided positive spread of 2.0% in the March quarter, while the long-term holdings were positive by only 0.44%. Some long-term financing must be done since short-term debt exceeds short-term mortgages by \$31 million, and several sources are being explored.

Results & outlook: NML earned \$0.08/sh. in the March quarter, down from a restated \$0.25/sh. in the prior quarter. Additions to the loss reserve have been the most volatile element in quarterly earnings, such charges ranging from \$0.05 to \$0.26/sh. per quarter during the last year; earnings have ranged from \$0.30

to \$0.35/sh. before such additions. The dividend has been kept at \$0.25/sh. over the past four quarters and management expects this rate to be maintained over the next year; dividends are fully taxable since taxable income exceeds reported income. The portfolio appears to have passed the crisis stage and should show gradual improvement in near-term quarters, permitting smaller loss reserve additions. This in turn should let reported earnings move up toward the \$1.00-\$1.20/sh. annual rate that we regard as a near-term objective. Beyond that the shares are a long-term speculation on management ability to rebuild earnings back toward the peak \$1.82 (restated) of fiscal 1974. (KDC)

MONEY MORTGAGE INVESTORS (8-3/4--NYSE-MYM) FY May 31

Portfolio: Holdings were \$234 million as of May 31, down 3% over the year. By type the latest breakdown was 46% long-term loans, 21% construction, 15% investment real estate, 7% land loans, 8% seconds and 3% foreclosed real estate. Mix by major group among long-term investments was 44% offices, 21% apartments and 29% shopping centers. The short-term portfolio included 20% apartments, 22% offices, 25% land, 12% hotels and 11% industrial. The long-term segment has grown in importance as the construction portion was worked down in the absence of new opportunities. Construction loan and other short-term fundings now appear to be leveling with new business offsetting repayments. Approvals for \$17 million were made in the May quarter of which \$14 million was already funded as interim loans. Supply of suitable construction loans is still low but new construction is starting to come back. Regarding competition, key banks are back in construction lending. The trust, however, has the life insurance parent to swing business its way with long-term takeouts the fat bait in most cases. Most construction business is being done at 2½-3% over prime. Thus, overall portfolio should be maintained at current levels with hope of some increase.

The problem categories have been stabilizing for several quarters and now show signs of decreasing. Non-earning loans were \$21 million in May, 9% of fundings. But the biggest chunk, an \$8.4 million Yaphank, N.Y. land loan will be restored by August. Other progress: \$245T industrial in Omaha, Neb. is to be foreclosed and sold; \$128T office in Pontiac, Mich. will probably be charged off; \$1.6M land in Rolling Meadow, Ill. is being restored; \$6.7M apartments in N.C. in Chapter X is being offered court plan; \$2.4M shopping center Taylor, Mich. will be foreclosed if not restored; and \$2.2M office in Atlanta was foreclosed, now 76% occupied. Another troubled category is \$8.3 million foreclosed properties, 3.7% of holdings. Three of these properties, apartments in Cary, N.C. and Jeffersonville, Ind. and an office building in Orlando, Fla., are now fully occupied and cash flow positive. The entire foreclosed account will be sold out or transferred to the investment property account this fiscal year (May 1977). There should be no loss to the trust. The portfolio retains wide geographic distribution, 32 states led by Maryland-11%, New York-8%, Florida-8% and California-6%.

Financing: Fundings were 41% capital, 59% non-convertible debt. Capital was 92% equity and 8% convertible debentures, 7% due 1990 conv. @ \$11. Debt of \$138 million was 31% short-term bank notes, 36% commercial paper, 18% long-term, 14% secured mortgages. About 35% of all funds float with prime. The adviser agreed to endorse the trust's commercial paper up to \$43 million (which should be raised shortly to \$50 million) for a ½% fee. Not all endorsed paper power is being used. Sponsor: Mutual Life Insurance Co. New York, one of the largest life insurers. The adviser participates up to a minimum of 10% in the trust's long-term investments. Its participation was \$34 million against the trust's \$107 million.

Results & outlook: In the May quarter, \$0.26 was earned against \$0.20 in the Feb. quarter. The dividend was boosted to \$0.23. This indicates a yearend cleanup payment to supplement the quarterlies. Additionally, taxable earnings exceeded reported earnings indicating further payout on this score. Earnings should improve over the year, particularly toward the second half, as non-earning loans and foreclosures are worked down and permit higher returns from many of these assets. The short-term portfolio should about maintain its contribution despite higher interest rates as floating portions of holdings and fundings are almost in balance. Commitment fees will remain low but are picking up a little. As one of the three most successful and highly regarded insurance sponsored trusts, the shares now sell close to book value. In view, however, of the strong outlook and good current yield, the converts and shares are well worth holding for income. (BS)